eacc Education Association of Charles County

3555 Leonardtown Road
Waldorf, Maryland 20601
(301) 645-3232
(301) 843-7757
Fax: (301) 645-6352

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April 22, 1997

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MAY 1 1997

Commissioner Rachelle B. Chong
Federal Communications Commission
1919 M Street NW
Washington, DC 20554

RE: CC Docket NO. 96-45

Dear Commissioner Chong:

As president of the Education Association of Charles County Maryland which represents over 1,000 educators, I am writing in support of the Universal Service discounts for schools and libraries that have been recommended by the Joint Board.

We would like to thank you for your dedication in ensuring that all schools and libraries will have affordable access to the Information Superhighway.

The Telecommunications Act and the Joint Board discount plan will guaranteed that even the poorest schools will have the opportunity to connect to the Internet and provide distance-learning opportunities. The $2.25 billion a year will address the needs of all our schools, and, importantly, the plan will bring services directly to the classroom where students learn. Your inclusion of internal classroom connections for discount is vital. This plan is essential for preparing the workforce of tomorrow.

Our students need deep discounts for telecommunications services this year. We urge the FCC to fully support the Joint Board's discount plan for universal services for schools and libraries.

Thank you.

Sincerely,

Bob Sondheimer

Bob Sondheimer
President

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List A B C D E

For Immediate Release Contact: Brian Moir (202)331-9852

New Plan Reforms Access Charges, Universal Service Without Forcing American Consumers & Businesses to Pay More

Washington, D.C, April 16, 1997 – Business and consumer groups today announced a unique reform plan for interstate access charges and the universal service system that creates billions in savings for American telephone customers. The consensus plan delivers not only savings, but other important promises made to residential and business phone consumers by the Telecommunications Act of 1996, such as technological improvements for schools and health care facilities that will benefit America's future.

Unlike other proposals being discussed by the Federal Communications Commission (FCC), however, the plan reduces access charges without cost-shifting that wipes out the net benefits to consumers and businesses, who are tired of paying monopoly telephone rates.

The plan, being presented to the FCC today, would phase in nearly $10.7 billion in access charge reductions over a five year period. After factoring in the costs of fully funding universal service and wiring schools, libraries and hospitals, a national priority set by the Telecommunications Act of 1996, the net consumer savings is projected at almost $7 billion.

"We are proposing an end to the monopoly shell game where mandated reductions of overcharges are shifted around to other areas and finally onto the backs of business and residential consumers," stated Brian Moir, general counsel to the International Communications Association, a supporter of the consensus proposal. "Our plan promises people lower phone bills without taking those savings back by imposing a new tax or other charge."

Highlights of the plan include:

- Every year, access charges would be reduced without increases in other charges that force telephone customers to make up for the inefficiencies of local telephone monopolies.
- Wiring for schools, libraries, hospitals and rural health centers as well as expanded lifeline programs, would be fully funded.

- Federal contributions for universal service – assistance for rural and lower-income areas – would be fully funded through interstate revenues.
- Internet users and businesses, whether small, large or home-based, would not be hit with an additional charge on modem use, second or multiple lines.

The proposal is based on the FCC's acceptance of TELRIC, a forward-looking pricing mechanism which rewards efficient operations and network investment by telecommunications providers. "Our proposal seeks not only to reduce access charges but to thoroughly reform – through a five-year transition – the current system that rewards local telephone monopolies and not ratepayers," explained Moir. "TELRIC-based pricing will not allow local exchange carriers to overcharge customers and will help promote the kind of competitive environment that we were all promised by Congress in last year's telecom reform law. "

For more information about this pro-consumer, pro-business access charge/universal service reform proposal, please contact Brian Moir at 202/331-9852.

\# # # #

Business & Consumer Consensus Proposal On

Access Charge/Universal Service Reform

Fact Sheet

April 16, 1997

Highlights

- Over a five year phase-in period, interstate access charges would be reduced nearly **$10.7 billion** without increases in other charges that force telephone customers to make up for the inefficiencies of local telephone monopolies. All access charge reductions would be flowed through to customers.
- After factoring in the costs of fully funding universal service and wiring schools, libraries and hospitals, national priorities set by the Telecommunications Act of 1996, the **net consumer savings is projected at almost $7 billion.**
- Wiring for schools, libraries, hospitals and rural health centers as well as expanded lifeline programs, would be fully funded.
- Federal contributions for universal service – assistance for rural and lower-income areas – would be fully funded through interstate revenues, helping the FCC avoid conflicts with state jurisdictions.
- Internet users and businesses, whether small, large or home-based, would not be hit with an additional charge on modem use, second or multiple lines.
- No part of this plan threatens the financial health of the incumbent local exchange carriers; in fact, the proposal speeds their transition to regulatory flexibility.
- The plan does not unfairly benefit any segment of the telecommunications industry or any one company or group of companies. It is designed to maximize competition and deliver the benefits promised by the telecom law to customers.
- Finally, this plan is based on bringing access rates down to a level based on forward-looking cost-based prices, or TELRIC.

Year One: July 1997/98

- Reinitialize rates for excessive LEC earnings over 11.25% = savings of $1.987 billion
- Increase price cap productivity factor to 7.5% = savings of $990 million
- Immediate access charge reductions save $2.977 billion for America's residential and business telephone customers

(Changes based upon FCC acceptance of TELRIC rate as less than 1.1 cents per minute; current average originating and terminating cost per minute is 2.7 cents.)

Through 1997-98

- Implement Universal Service Fund at $30 benchmark rate as recommended by Joint Board and supported by majority of commenters on USF proceedings = $1.469 billion for universal service funding; total subsidy of $1.657 billion
- Remove current universal service funding from large LECs (maintain rural LEC funding until 2001) = $300 million savings
- Reduce access charges for large LECs, saving $1.169 billion
- Implement $1.994 billion in funding for wiring schools and libraries, IXC payments round out subsidy to $2.25 billion
- Consumers see savings of $1.994 billion from access reductions

Year Two: July 1998

- Reduce Transport Interconnection Charge (TIC) to 20% of current level, which RBOCs have acknowledged is sufficient to cover costs, while true forward-looking costs are determined using TELRIC methodology = $1.799 billion savings
- As terminating access charges are a true bottleneck that cannot be eliminated even through competition, they are a prime candidate for a $211 million reduction.
- Maintain price cap productivity factor at 7.5% = savings of $249 million
- Total consumer savings of $2.269 billion seen in Year Two

Year Three: July 1999

- First step of adjusting terminating access fees to TELRIC = $637 savings
- First step of adjusting originating access fees to TELRIC = $389 savings
- Phase in expanded lifeline coverage for lower-income consumers = cost of $300 million
- Total Year Three consumer savings is $726 million

Year Four: July 2000

- Second step of adjusting terminating access fees to TELRIC = $637 savings
- Second step of adjusting originating access fees to TELRIC = $389 savings
- Phase in expanded lifeline coverage for lower-income consumers = cost of $300 million
- Phase in expanded rural health care providers program at a total cost of $400 million, sufficient to provide T-1 service to all providers
- Total consumer savings in Year Four is $326 million

Year Five: July 2001

- Final step of adjusting terminating access fees to TELRIC = $637 savings
- Final step of adjusting originating access fees to TELRIC = $389 savings

- Final phase-in for rural LECs universal service funding at \$30 benchmark = cost of \$1.335 billion, with a total subsidy of \$1.506 billion
- Reduce rural LECs' access charges = savings of \$95 million
- Remove triple-DEM methodology = \$310 million savings
- Remove current (1997) universal service funding from rural LECs, phase in new TELRIC methodology = \$470 million savings
- Remove long-term support = \$460 million savings
- Total consumer savings in Year Five of \$1.026 billion

Final adjustment: July 2002

- Ramp down school funding after one-time wiring charges paid and recurring \$500 million annually covers usage discounts = \$1.551 billion savings

Total Consumer Savings

- Access reductions from 7/1/97 to 7/1/02 = **\$10.648 billion**
- Net consumer savings = **\$6.872 billion**

PRICE CAP COMPANIES-1996 FORM 492 RESULTS					
COMPANY	R/R		EXCESS above 11.25% ($000)		EXCESS above 10% ($000)
AMERITECH	18.27%		$362,994		$427,595
BELL ATLANTIC	11.31%		$4,750		$97,718
BELLSOUTH	16.24%		$403,572		$504,671
NYNEX	13.67%		$155,930		$236,362
PACIFIC BELL	17.76%		$266,985		$318,248
NEVADA BELL	22.84%		$14,177		$15,705
SOUTHWESTERN BELL	11.60%		$20,213		$92,025
USWEST	13.57%		$151,629		$233,458
ROCHESTER	10.20%		($1,757)		$343
FRONTIER	22.55%		$17,402		$19,328
CENTEL-FLA	17.86%		$8,096		$9,628
CENTEL-ILLINOIS	18.40%		$4,174		$4,903
CENTEL-NEVADA	20.42%		$17,033		$19,355
CENTEL-NC	15.47%		$2,891		$3,748
CENTEL-TEXAS	21.58%		$5,988		$6,712
CENTEL-VIRGINIA	17.46%		$6,078		$7,302
UNITED-FLA	19.79%		$42,596		$48,833
UNITED-INDIANA	24.30%		$7,908		$8,665
UNITED-MIDWEST	21.52%		$30,900		$34,662
UNITED-NJ/PA	17.42%		$10,183		$12,246
UNITED-NC	15.49%		$12,559		$16,261
UNITED-OHIO	16.12%		$8,359		$10,506
UNITED-NORTHWEST	34.55%		$13,082		$13,784
UNITED-SOUTHEAST	20.66%		$12,462		$14,118
SPRINT LOCAL	19.27%		$182,309		$210,725
SNET	10.29%		($7,772)		$2,380
GTE	16.99%		$416,764		$507,453
TOTAL	14.91%		$1,987,195		$2,666,011
RBOC SUM	14.41%		$1,380,249		$1,925,782

Business/Consumer Consensus Proposal on

Access Charge & Universal Service Reform

April 1997

Consumer/Business Consensus Proposal for Access and Universal Service Reform

April 16, 1997

Supporters

American Petroleum Institute

Consumer Federation of America (CFA)

Consumers Union

International Communications Association (ICA)

Michigan Consumer Federation

Oregon Citizens' Board

National Retail Federation (NRF)

Index

I. Statement of Principles

A. Consumer/Business Consensus Principles for Access Reform

This proposal is in response to consumer/business understanding of the proposals being considered by some at the Federal Communications Commission (FCC), which would lead to numerous expanded or new end-user charges that would raise the total costs of telephony. Consumer and business user representatives decided to present the FCC with a practical, pro-consumer and pro-competitive pathway to resolution of the access proceeding based on the record evidence.

No new concepts or mechanisms are introduced as part of this plan that are not already part of the FCC's record. Instead, it uses the tools currently available to the FCC, information already in the record -- some of which has been before the FCC for some time, and provides a glide path to (1) complete resolution of the issue with total element long run incremental cost (TELRIC) -based pricing for access within 5 years and (2) fully fund universal service. This plan is not intended to benefit any one segment of the telecommunications industry or any company or group of companies. Rather, it is designed to maximize competition and deliver benefits to users - the primary goals of last year's telecommunications law..

It is important to note that the only way to remain true to the following principles and maintain a responsible balance between segments of the industry and consumers is to take this proposal as a package. Use of only bits or pieces of this plan will surely undermine some or all of the following principles and would, therefore, be unacceptable.

The principles embodied in the plan include:

- Consumer rates must come down at every step of the process
- No new end-user fees
- Initial cuts, which do not require resolution of TELRIC price for interstate access, are well-supported by the record
- TELRIC pricing of access as the end point
- Completely flow through of all net access reductions to customers
- Cuts do not imperil financial health of the Incumbent LECs (ILECs).
- Provide full funding for universal service, including schools and libraries
- ILECs gain quick transition to regulatory flexibility and the elimination of sharing

Proposed Resolution
of the Docket

II. Proposed Resolution of the Docket

A. Consumer/Business Consensus Access and Universal Service Reform Proposal

Local competition cannot succeed without disbanding the existing system of bloated and hidden subsidies that the ILECs have employed since 1984 allegedly to support local service rates in high cost areas. In addition, residential and business consumers coalition are concerned that overall interstate access charges are currently set at a level far in excess of what is reasonably needed to subsidize local phone service in high cost areas, as well as telecommunications services for schools, libraries, and rural telemedicine. As a result, ratepayers are paying too much for long distance service. The Telecommunications Act of 1996 requires that the FCC decide by May 8, 1997, to create an explicit and competitively-neutral funding method for universal service. The Consumer/Business Consensus proposal is an effort to put that reform effort on a path that ensures that American consumers and businesses will benefit -- by providing ratepayers with overdue rate reductions, by facilitating local telephone competition, by lowering long distance rates, and by fully funding the universal service obligations that Congress mandated.

This proposal is our effort to focus the debate on the underlying issue -- whether the constituencies represented by the supporters of the Consensus Proposal -- the American telephone ratepayer -- will be better off as a result of FCC action. We believe this proposal is superior to any other suggestions for reform that have recently been under discussion at the FCC because, unlike other plans, this proposed solution creates real benefits. Furthermore, we believe this result can be achieved without requiring ratepayers to insure the ILECs against revenue losses from competition by creating any new flat, monthly "end user" charges.

Under our consensus proposal, interstate access charge and universal service reform would be completed over a 5 year transition period. Today's excessive access structure would gradually be replaced with one based on forward-looking economic costs, consistent with rate levels that would be found in a fully competitive market. At each step in the transition, ratepayers benefit from lower access charges that enable long distance rates to decrease. As access is reduced to cost, universal service obligations are transformed to fully fund the Federal-State Joint Board's recommended support for schools, libraries, rural health care, and an expanded lifeline program for low income Americans, as well as to create a competitively-neutral high cost fund mechanism that will allow all competing local providers to participate in high cost subsidies.

[The following narrative is intended to describe the detail surrounding a revenue effect chart appended at page 12.]

Universal Service Proposal

The Telecommunications Act of 1996 requires the FCC to complete action on its universal service cost proceeding by May 8, 1997. While it is clear that the FCC must adopt a decision --

and we would argue the decision must be significantly detailed to permit an understanding of the structure that will govern universal service in the future -- it is less clear that implementation must be immediate, or that all implementation details must be ironed out by the May deadline. For this reason, and based on press reports that the FCC may not be ready to adopt a detailed decision governing all aspects of implementation, we have presented a plan that provides the FCC with sufficient flexibility in how it implements universal service. The FCC has choice. It can implement high cost funding for the largest ILECs, along with funding for schools and libraries, on July 1, 1997. Or, it can adopt a plan now to implement its decision as late as July 1, 1998, if it believes that it needs additional time to size the high cost fund, for example. Regardless of which path it selects, the dollar amounts of access reductions exceed the increases in telephone rates of that will be needed to pay for subsidies to schools and libraries, producing a net benefit to ratepayers in each year.

The Consumer/Business Consensus Proposal would reform universal service by implementing a new high cost universal service fund on an interstate-only basis. Similarly, the subsidies for schools, libraries, rural health care telecommunications, and expanded lifeline would all come from the interstate jurisdiction. This feature of our proposal has beneficial effects -- e.g., that the FCC is operating on its strongest legal authority when it adopts an interstate-only solution. But the ability to pick up these costs in the interstate jurisdiction is *inextricably tied* to the FCC's decision to simultaneously lower interstate access charges so that true consumer benefits are realized.

Universal service would be implemented in several steps, as follows.

The first step consists of several significant reforms.

- Subsidies for schools and libraries, as recommended by the Federal-State Joint Board, are fully funded. The Joint Board recommended a subsidy of $2.25 billion per year to be funded by all interstate carriers. To determine the consumer effect of this new subsidy mechanism, we estimated that interexchange carriers will pay $1.994 billion of the $2.25 billion, with the remainder being paid by other providers of interstate services. In a system where access rates and long distance rates were otherwise flat, this could lead to an increase in long distance charges on ratepayers. As stated above, however, our plan ensures that ratepayers do not experience increases, since access will fall by a larger amount.

- The $300 million now given to the largest ILECs in the FCC's existing high cost fund would be deleted, and replaced with a competitively-neutral universal service fund that is sized based on forward-looking economic cost. To illustrate the fund size, we have utilized the Hatfield Model (Release 3.1) as the basis for the estimates provided.

- The large ILEC fund would be recovered entirely from interstate carriers, with interexchange carriers picking up the lion's share of the fund ($1.469 billion out of a total large ILEC fund size of $1.657 billion). High cost areas would be subsidized to $30 local rate level, which approximates the Joint Board's recommended benchmark set at the nationwide average revenue-per-line for residential and single-line business customers. This revenue would become part of the interexchange carriers' cost structure, and would be recovered as part of retail rates. It is therefore very important to this plan that interstate access charges, and long distance rates, decrease to a greater extent than the new universal service dollars that are required.

[It is important to recognize that states would have the flexibility to subsidize high cost areas to a rate level below $30, to the extent that they choose to do so in the intrastate jurisdiction. That the states are not required to bear any of the costs to the $30 level, and are not required to pick up any of the new costs for schools, libraries, rural health care telecommunications, and expanded lifeline, should provide them with the flexibility they need to institute their own state high cost plans.]

- Because large ILECs are now eligible to receive universal service subsidies for high cost areas to the extent that they retain customers in those areas, access is reduced by $1.169 billion [the $1.469 billion that interexchange carriers would now pay for high cost funding for large ILECs, less the $300 million in subsidy dollars now paid by interexchange carriers in the existing Universal Service Fund (USF)].

- Small ILECs may present special problems for universal service reform. In recognition of the possibility that there may be disparate impacts on small ILECs if immediate universal service reform were to occur, the solution we are proposing does not disturb existing FCC support mechanisms for this group until further study can be undertaken. The proposals impact on small ILECs is as follows:

  * Small ILEC interstate access charges continue at existing levels
  * Triple-Dial Equipment Minutes (DEM) weighting continues for the present
  * The existing High Cost Fund support remains
  * Long Term Support also remains in effect

However, small ILECs should not be totally insulated from competition until these reforms occur. For that reason, the FCC should assign existing explicit subsidies for this group of carriers to the new universal service fund, and allow competitors that are competing against these small ILECs in their respective service territories, to become eligible to receive the funding on a per-subscriber basis through the transition to a more cost-based approach for small ILECs that will occur later in the 5 year transition plan.

The second step implements the expanded Lifeline plan.

- Today, states that are interested in receiving interstate subsidies to assist low income ratepayers can certify a state "lifeline" plan to the FCC, enabling their state ILECs to receive subsidies that lower monthly telephone bills and service installation costs (the program is known as "Link-Up."). Forty one states, the District of Columbia and the U.S. Virgin Islands presently participate in the existing plan.

- The Joint Board's expanded Lifeline recommendation is intended to spread Lifeline and Link-Up programs to **all** states, at an estimated cost of $600 million.

- Our proposal would phase in the expanded plan over a two year period, beginning on July 1, 1999, and fully funding the plan in the year 2000. This would provide ample time for state regulators to determine how implementation of this new low-income benefit will affect existing state-mandated programs and offerings, as well as time for the certification process to occur.

The third step implements subsidies for rural health care telecommunications.

- Based on our review of the FCC record, there is insufficient data to support adoption of a specific rural health care telecommunications subsidy at this time. It is our belief that the FCC needs to renew its efforts to determine what services should be provided, as well as to define the goals and purpose of this program, before proceeding to funding.

- We therefore recommend that the FCC announce in its universal service order that rural health care telecommunications subsidies will be implemented within three years, to allow for further study of this important issue.

- For the purposes of presenting a view of consumer effects on rural health care telecommunications, we have estimated that there could be additional costs of up to $400 million in the year 2000 when rural health telecommunications subsidies are initiated.

The fourth step in universal service reform is implementing a cost-based subsidy system for small ILECs.

- We have proposed that the FCC declare that on July 1, 2001, it will reform the existing subsidy mechanisms for small ILECs. For the purposes of showing revenue effects, we have relied on the Hatfield Model to size the fund necessary to subsidize small ILEC service areas to local rate levels of $30 a month, although the FCC could find some other mechanism to apply in sizing the fund based on forward-looking economic cost. The fund is entirely recouped in the interstate jurisdiction. Interexchange carriers will pay $1.335 billion of a total subsidy amount of $1.506 billion. That increased cost will be partially offset by elimination of the existing fund programs, which will produce a downward effect on access, together with other access reductions occurring that year, as described below.

Fifth, we propose that the school and library fund be modified on July 1, 2002, to reflect completion of inside wiring for these entities.

- The Federal-State Joint Board recommended that subsidies for schools and libraries include an amount necessary to provide inside wire to some portion of a building. Once schools and libraries are wired for Internet access, however, there is no public policy benefit in further taxing residential and business telephone ratepayers for ongoing wiring costs that will no longer exist.

- Our proposal therefore includes a decrease in charges to account for a "ramp down" in schools and libraries subsidies, to reflect only the ongoing cost of subsidizing telecommunications services.

Access Charge Proposal

While the promise of universal service reform benefits ratepayers by facilitating the emergence local telephone competition, and by fully funding subsidies to schools, libraries, rural health telecommunications, and low income subscribers, universal service reform does not by itself achieve the necessary principles which are core to these proceedings. Interstate access charges must be lowered, and lowered substantially, if American residential and business telephone consumers are going to benefit from the implementation of this new system. Below, we describe a year-by-year plan to lower access charges. Critical to the plan is the recognition that, in the end, interstate access rates must be set at forward-looking economic cost.

Year 1

The plan would commence on July 1, 1997 with the FCC relying on the existing record in the LEC price cap and access reform proceedings to reduce rates by a total of approximately \$2.977 billion. Approximately \$2 billion in reductions would come through reinitialization of interstate access rates down to a level which would yield the 11.25% return the ILECs were supposed to earn. The remainder would come from increasing the current productivity adjustment in the LEC price cap to 7.5%.

The FCC may choose to implement step one of the universal service proposal discussed above in Year 1.

Year 2

On July 1, 1998, the FCC would reduce the transport interconnection charge (TIC) to 20% of current levels, yielding an access reduction of $1.8 billion. In addition, there would be the annual benefit from applying the proposed productivity factor in the annual LEC access filings. The expected $249 million reduction would be applied to reduce rates across the board.

Alternatively, the FCC may choose to implement step one of universal service proposal in Year 2.

Year 3

By July 1, 1999, the FCC must complete its review of the forward-looking economic cost of access charges. This should allow the FCC ample time to consider the economic cost models now before it, and to identify the excess that is above cost by July 1, 1999. Access charges would be reduced by an amount equal to one-third of the remaining excess identified by the economic cost model that the FCC has selected. For the purposes of illustrating rate effects for our proposal, we have used the Hatfield Model (Release 3.1). We estimate that this would yield a reduction of almost $1.1 billion. Also at this point, the FCC would begin phasing in funding for the expanded Lifeline program at $300 million. This would make the plan's Year 3 net benefit to consumers $797 million.

Year 4

An additional one-third of the excess identified by the economic cost model would be eliminated on July 1, 2000, leaving one third of the excess remaining. The same reductions, just over $700 million in terminating and just under $400 million in originating access would be made. Additional expanded Lifeline program funding of $300 million would be put into place in Year 4, and the FCC would establish funding for the rural health care piece of universal service of about $400 million. For consumers, the net benefit from changes in this year would total $397 million in access reductions.

Year 5

The remaining excess would be removed from both originating and terminating access charges, bringing the cost of access down to economic cost levels by July 1, 2001. In addition, the FCC would institute an economic cost-based funding mechanism for universal service support for the rural LECs, based on the same $30 benchmark. When this new funding source is instituted, the existing support mechanisms - high cost fund, triple-DEM weighting, and Long Term Support would also be eliminated. Access charges would be reduced by the net change in support, a total of nearly $2.4 billion.

Out Years

LECs obtain **complete** pricing flexibility for interstate access services. In addition, since schools and libraries have been funded by some $11.25 billion during the preceding 5 years, the annual funding obligation would be reduced to $500 million. The reason for this change is that enough money to wire all classrooms and make necessary internal connections would have been collected by 2001. The ongoing costs for providing discounted service would be completely funded by $500 million in annual USF support.

Consumer/ Business Coalition Proposal

Date	Item	Revenue Effect ($M)	Universal Service Support ($M)	Consumer Benefit ($M)
7/1/97				
	Reinitialize rates for excessive earnings	-1,987		
	Set X to 7.5%	-990		
	Consumer Benefit			-2,977
97/98				
	New USF @ $30 benchmark	*1,469*	*1,657*	
	Remove current USF from large LECs	*-300*		
	Reduce access for large LEC USF	*-1,169*		
	Schools/Libraries	*1,994*	*2,250*	
	Consumer Effect[1]			*(1,994)*
7/1/98				
	Reduce TIC to 20% of current level	-1,799		
	X at 7.5%	-249		
	Consumer Benefit			-2,048
7/1/99				
	Terminating to TELRIC - First Step	-708		
	Originating to TELRIC - First Step	-389		
	Phase-in Expanded Lifeline[2]	300		
	Consumer Benefit			-797
7/1/00				
	Terminating to TELRIC - Second Step	-708		
	Originating to TELRIC - Second Step	-389		
	Phase-in Expanded Lifeline[2]	300		
	Rural Health Care	400		
	Consumer Benefit			-397
7/1/01				
	Terminating to TELRIC - Final Step	-708		
	Originating to TELRIC - Final Step	-389		
	USF @ $30 benchmark for rural LECs	1,335	1,506	
	Reduce access for rural LEC USF	-95		
	Remove Triple-DEM	-310		
	Remove current USF from rural LECs	-470		
	Remove Long Term Support	-460		
	Consumer Benefit			-1,097
7/1/02				
	Ramp Down School Funding[3]	-1,551	-1,750	-1,551
	Access Reductions, 7/1/97 - 7/1/02	-10,648		
	Consumer Benefit, 7/1/97 - 7/1/02	-6,872		

This set of changes could be implemented on either 7/1/97 or 7/1/98 and yield a net consumer benefit on those dates.

Footnotes

1 There will be an additional consumer effect of $444 million for the funding from other sources.
2 Expanded Lifeline will result in offsetting reductions of local service rates.
3 Assumes all one time costs have been paid for and recurring funding of $500 million annually is adequate to cover usage discounts.

Legal & Economic Justifications

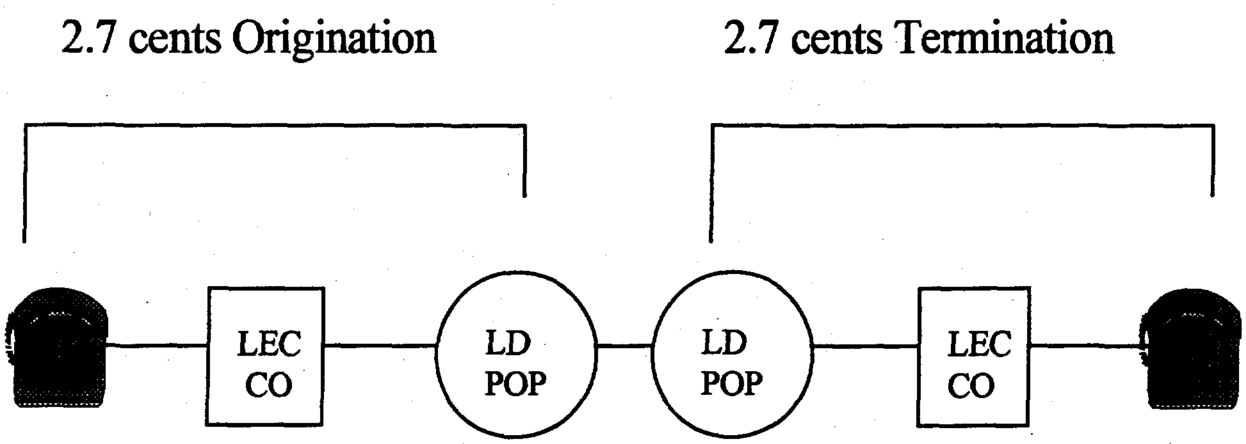
III. Legal and Economic Justification for the Proposed Resolution, by Each Principle

A. Consumers Must Be Benefited at Each Step in the Transition to Full Implementation

The three proceedings that make up the trilogy -- interconnection, universal service and access reform -- are each critical to achieving the ultimate goal of a fully competitive local telecommunications marketplace which provides the public with lower prices, increased innovation, and ever-improving service. However, only the access charge proceeding presents an opportunity for the FCC to provide a measurable consumer benefit -- lower long distance prices -- right now.

Access is a charge paid by long distance companies to local exchange carriers to originate and to terminate long distance calls. The FCC sets access charges for interstate traffic; the state commissions set access charges for traffic within state lines. The average rate that interexchange carriers pay to originate a call is 2.7 cents. These carriers also must pay an average of 2.7 cents to terminate each interstate call.

Average Interstate Originating & Terminating Access Charges



Interstate access charge levels are important because long distance carriers currently pay local exchange monopolies nearly 40 cents of every long distance revenue dollar. Interexchange carriers like MCI and AT&T estimate that the rates charged by the local exchange carriers for interstate access currently exceed their forward-looking economic cost by nearly 8 times. The FCC Chairman has recognized that "the difference between actual [access] charges and forward-looking cost based prices is measured in the billions of dollars." September 17, 1996, Speech by Chairman Hundt before the Media & Communications '96 Conference, p. 5. In another speech, this time before the National Association of Regulatory Utility Commissioners (NARUC), Chairman Hundt noted that "access is priced somewhere between 250-700 percent too high." February 25, 1997 Speech by Chairman Hundt before NARUC, p.6.

The interstate access reforms recommended in the consensus proposal benefits residential and business telephone consumers immediately without unfairly burdening any one segment of the industry. In the first year, consumer telephone rates will decrease by $2.97 billion dollars, if the Universal Service provisions outlined in the Coalition's proposal are applied in 1998. However, if the FCC decides to apply these Universal Service provisions in 1997, consumer telephone rates will decrease immediately by nearly a billion dollars. Under either circumstance, after five years, consumers' net rates will decrease by $6.87 billion. These reductions will be achieved even after funding universal service and the FCC's initiatives to wire schools, libraries and rural health care institutions and Lifeline. The consensus proposal allows for significant consumer rate reductions and provides nearly $4 billion in funding to meet these social objectives.